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SUBJECT: SRI LANKA: UK CONSIDERING CANCELING TSUNAMI DEBT RELIEF

REF: A. NASSIRY-GABOR TELCON 20 FEBRUARY 2007

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11. (SBU) Summary: The UK is considering canceling \$80 million in debt relief provided to Sri Lanka following the 2004 tsunami because of concerns that Sri Lanka is not meeting pro-peace conditions of the debt relief agreement. The UK's privately-conveyed concerns were leaked to the Sri Lankan press - possibly in an attempt by the Government of Sri Lanka to pressure the UK not to cancel the assistance. End Summary.

12. (SBU) The United Kingdom's Department for International Development (DFID) has asked the Government of Sri Lanka (GSL) to address concerns that the GSL may not be adhering to the conditions of the UK's debt relief granted following the 2004 tsunami. John Culley, of British High Commission political section in Colombo, told Econoff that the 2005 UK-GSL \$80 million debt relief agreement was intended to be "conflict sensitive" in that it should not free up other GSL funds to be used in the country's conflict with the separatist Liberation Tigers of Tamil Eelam. For this reason, the agreement included the following explicit requirements:

- o GSL adherence to international obligations, in human rights and other areas;
- o no initiation of conflict;
- o no unjustifiable military expenditures; and
- o no breakdown of transparency and accountability.

13. (SBU) According to Culley, DFID was concerned about specific examples, cited by observers such as the Co-Chairs and the Sri Lanka Monitoring Mission, of departures from the first three conditions. Interestingly, DFID did not have reservations about the GSL's performance on the fourth condition, although many other donors have significant concerns. Culley did not elaborate on the instances that the UK had flagged. He said that UK Secretary of State for International Development Hilary Benn wrote to GSL Finance Secretary PB Jayasundera February 11 to ask the GSL to explain how its actions were consistent with the terms of the debt relief agreement. Culley expected that discussions between the two governments would continue for at least a few weeks before the UK would make a final decision on whether to cancel its debt relief.

14. (SBU) According to Culley, the UK's debt relief agreement consisted of a UK commitment to pay 10 percent of all Sri Lanka's debt payments to the World Bank's International Development Association from 2005 to 2014. The total projected amount of relief is 41 million British pounds, or about \$80 million. This figure represents about 60 percent of the value of the UK's ongoing assistance to Sri Lanka. Culley emphasized that the UK had not made a decision to cancel the debt relief, nor had it decided what it

would do with the funds if the debt relief were cancelled. It was possible, he said, that DFID would give equivalent funds to the United Nations or the International Committee of the Red Cross for humanitarian work in Sri Lanka; but it was also possible that the money would not be reprogrammed for Sri Lanka.

15. (SBU) In declining to share with Embassy a copy of the "private and confidential" Benn letter, Culley explained how the substance of the letter came to be reported in the Sri Lankan newspaper, "The Sunday Times" on February 18. According to Culley, DFID delivered the letter to the Sri Lankan High Commission in London with the request that it be transmitted to Sri Lanka's Ministry of Foreign Affairs and Ministry of Finance. After the Sunday Times report appeared in Colombo, the British High Commission checked with the two ministries and found that they had not yet received copies of the letter. Thus, the High Commission concluded, the Sri Lankan High Commission had likely leaked the issue to the Sunday Times.

16. (SBU) Culley surmised that the Sri Lankan High Commission's motivation in leaking the contents of the Benn letter to the press was to put pressure on the UK not to cut its aid, much as had occurred following the German government's recent announcement that it intended to redirect tsunami aid from Sri Lanka to Indonesia and not commit new aid to Sri Lanka until peace talks resumed (ref B).

17. (SBU) Comment: The British High Commission's guess that the GSL leaked this matter to the press in order to create pressure on the UK not to follow through seems plausible. If this was the GSL's strategy, it is unlikely to work - Germany in fact did not back off its intention to shift tsunami aid from Sri Lanka to Indonesia and suspend new aid, it only softened its public statements on the matter. Meanwhile, DFID has ample reason to regard recent GSL performance on human rights, the conflict, and military expenditure as inconsistent with the terms of its bilateral debt relief

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agreement.

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